

# Student of the Market

October 2020



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**Stock market  
volatility**

**2020 U.S.  
Election**

**Election case  
study**

**Large growth  
vs. large  
value**

**Record  
outflows  
in stock  
funds**

**Inflation and  
returns**

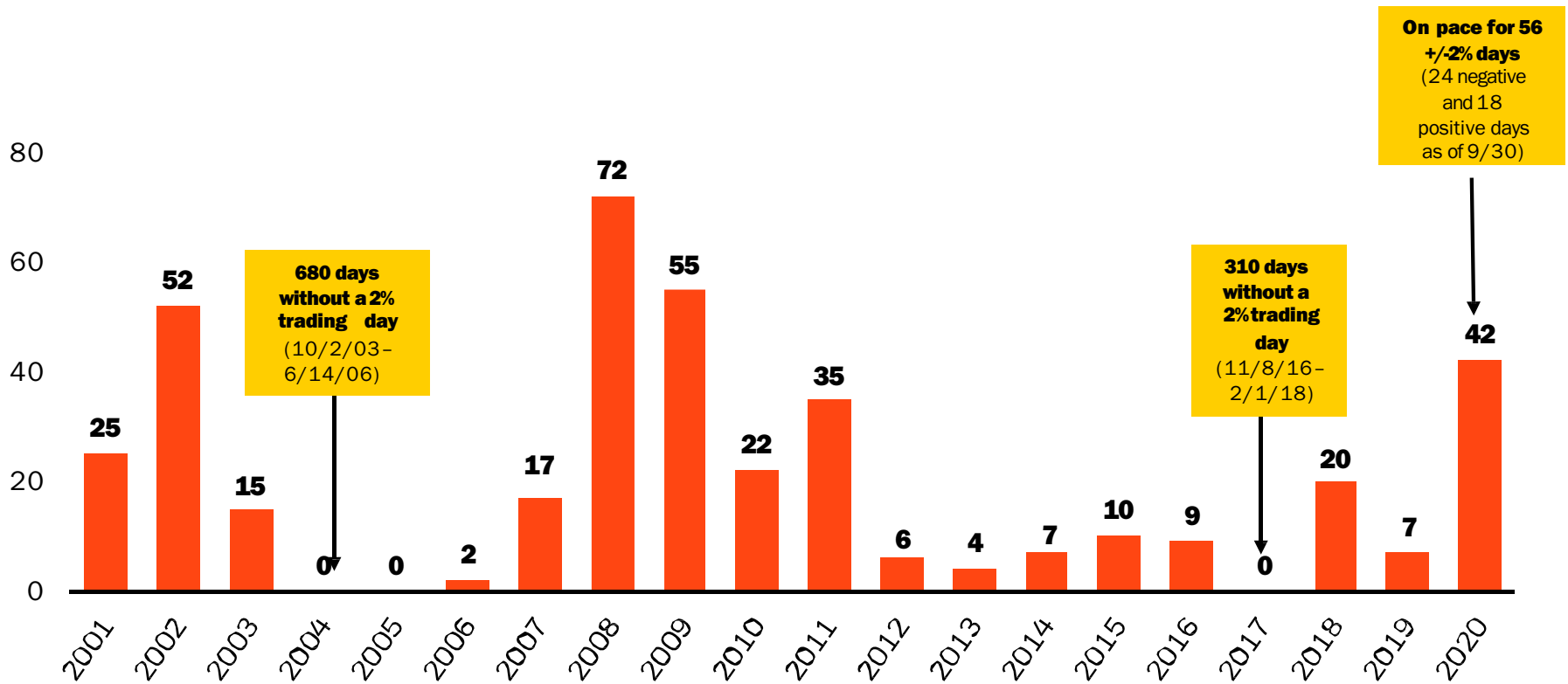
**Bond  
performance  
and rising  
interest rates**

**STOCK MARKET VOLATILITY**

# Highest volatility since the Financial Crisis

## Number of single day stock market returns of +/-2% or more

S&P 500 by year (12/31/00 - 9/30/20)



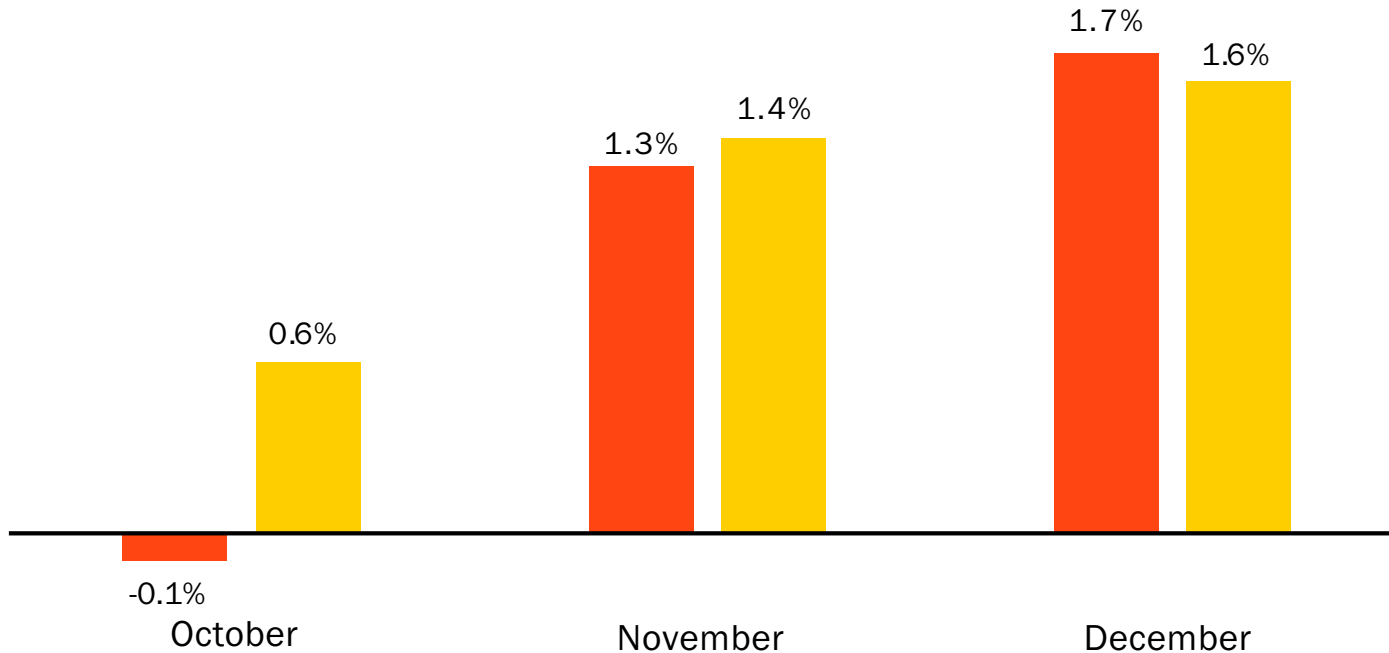
Source: Morningstar as of 9/30/20. Stock market represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Stocks in the final months of election years

## S&P 500 monthly performance

Average return for selected months, 1/1/26 - 9/30/20

■ Election years ■ All years



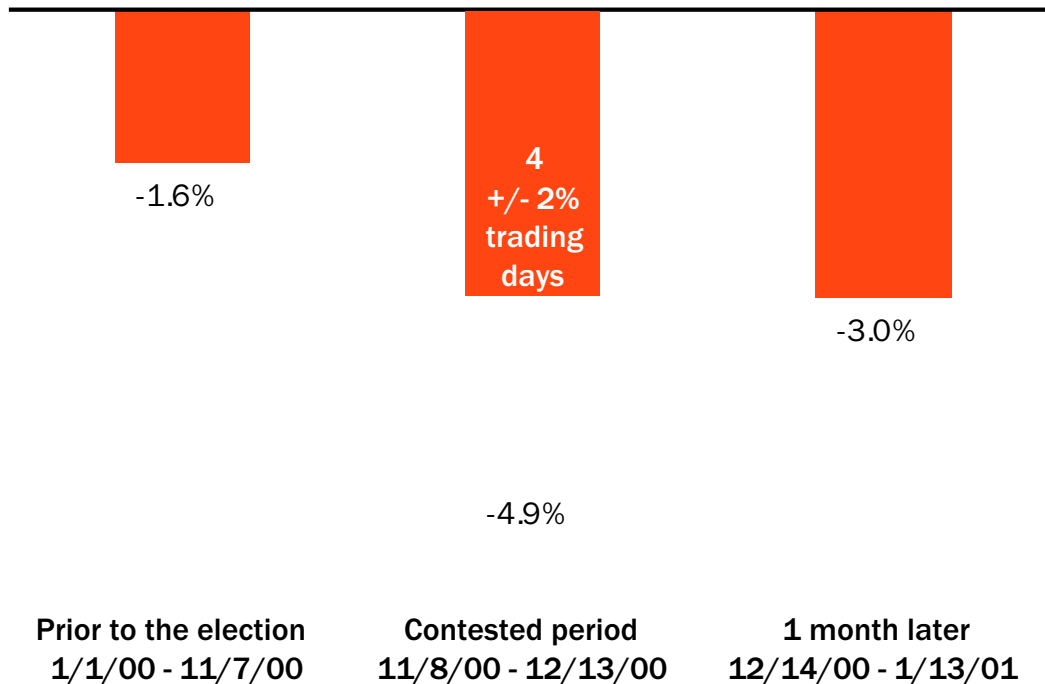
Stocks have performed similarly in the final months of both election years and non-election years

Source: Morningstar as of 9/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 9/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Stocks have seen contested elections before

## Case Study: 2000 U.S. presidential election

S&P 500 performance, 1/1/00 through 1/13/01



### 2000 U.S. contested election timeline:

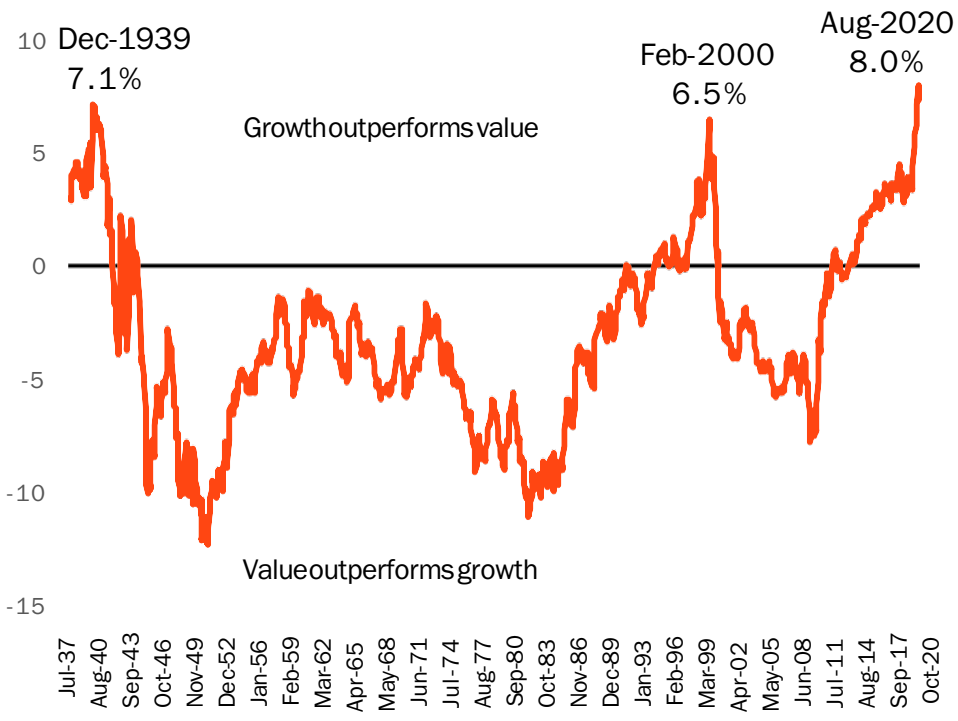
- Nov 7: Election day
- Nov 8: Gore retracts concession
- Nov 16: The Florida Supreme court permits manual recounts
- Nov 27: Gore sues to contest election in Florida
- Dec 12: U.S. Supreme courts stops Florida recounts
- Dec 13: Gore concedes

## LARGE GROWTH VERSUS LARGE VALUE

# Largest growth cycle in history

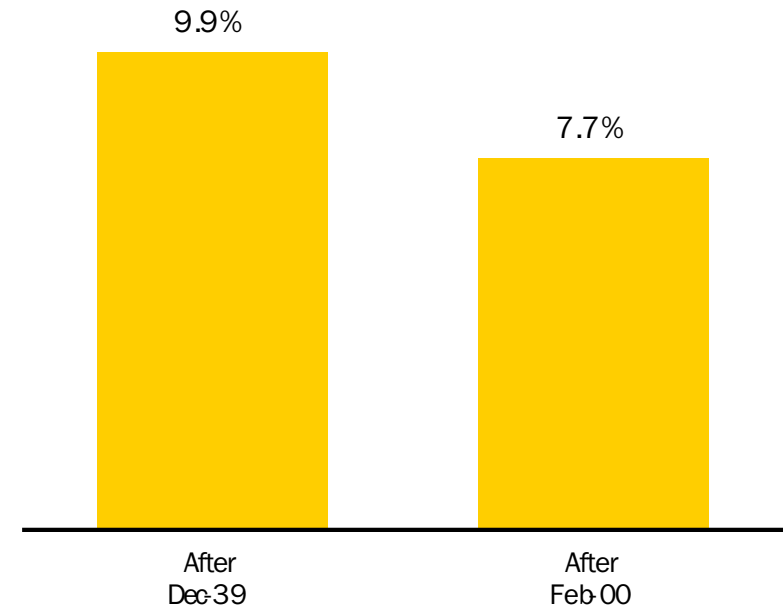
### Outperformance of indices flips back and forth

Large growth index returns minus large value index returns,  
10-year average annual rolling returns 7/1/37 – 9/30/20



### Large value outperforms after previous peaks in large growth outperformance

Average annual outperformance for 10 years after date,  
large value index returns minus large growth index returns



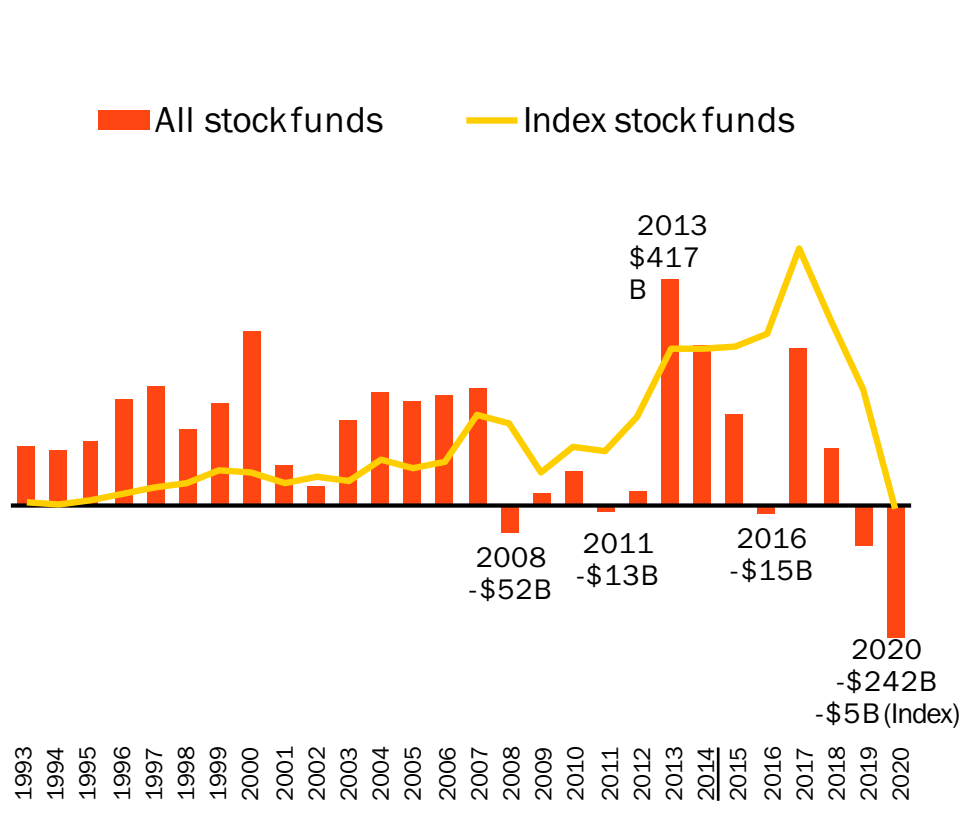
Source: Morningstar as of 9/30/20. Large growth index represented by the Russell 1000 Growth TRUSD Index from 1/1/87 to 9/30/20 and Fama-French Large Growth TR index from 7/1/37 to 1/1/87. Large value index represented by the Russell 1000 Value TRUSD Index from 1/1/87 to 9/30/20 and the Fama-French Large Value TR index from 7/1/37 to 1/1/87. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

**RECORD OUTFLOWS IN STOCK FUNDS**

# Record outflows in stock funds

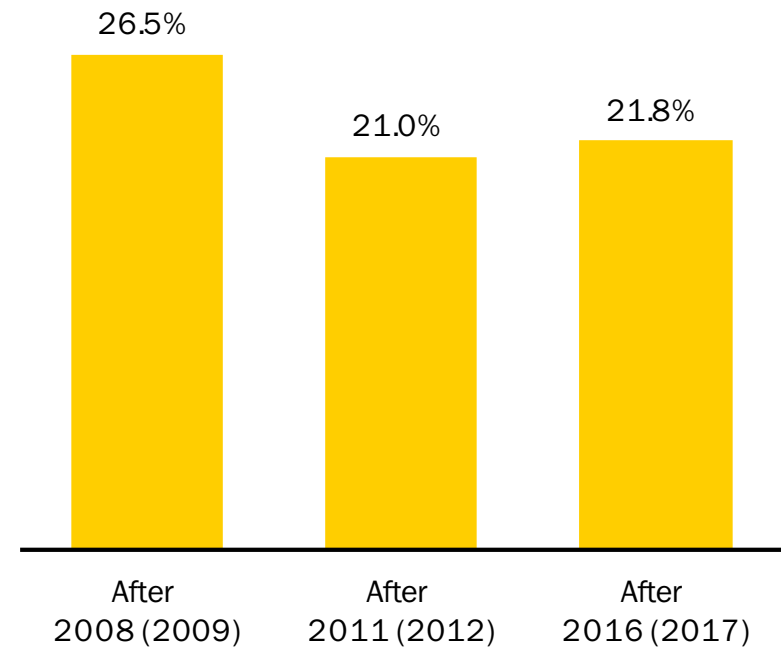
(even index funds)

**Stock mutual fund and ETF flows by year**



**U.S. stock performance following a year when stock funds had outflows**

S&P 500 index



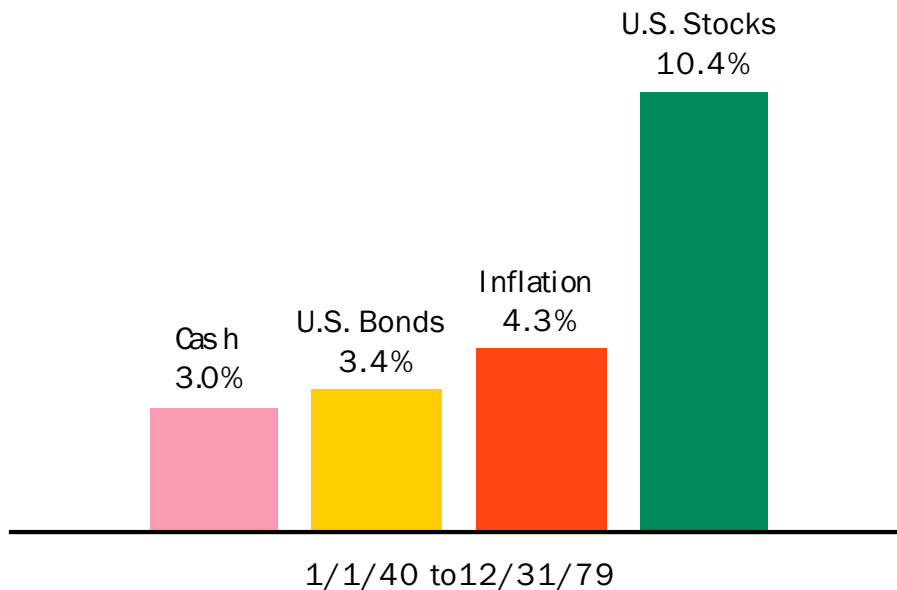
Source: Morningstar as of 9/30/20. Stock mutual funds and ETFs are represented by Morningstar Broad Equity Category. Stock market represented by the S&P500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

## INFLATION AND RETURNS

# Long term returns, interest rates and inflation

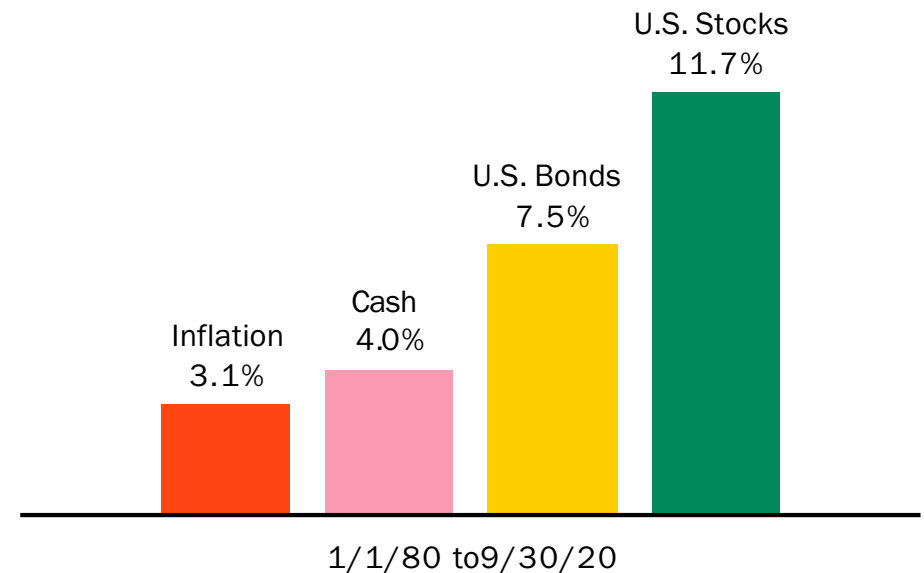
### Average annual returns in a **LOW & RISING** interest rate environment

(10-year U.S Treasury, 2.3% on 1/1/1940 and finished at 10.4% on 12/31/1979)



### Average annual returns in a **HIGH & FALLING** interest rate environment

(10-year U.S Treasury, 10.4% on 1/1/1980 and finished at 0.7% on 9/30/2020)



Morningstar and the Shiller database as of 9/30/20. Interest rates represented by the U.S. 10 year Treasury bond (month-end) and the bond market return represented by the IA SBBI IT US Govi Index for the period 1/1/1940 to 12/31/1979 and the BbgBarc US Agg Bond Index for the period 1/1/1980 to 9/30/2020, inflation by the BLS CPI NSA, cash by the U.S. 1 Month treasury bill index and stocks by the IA SBBI US Large Cap Stock Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

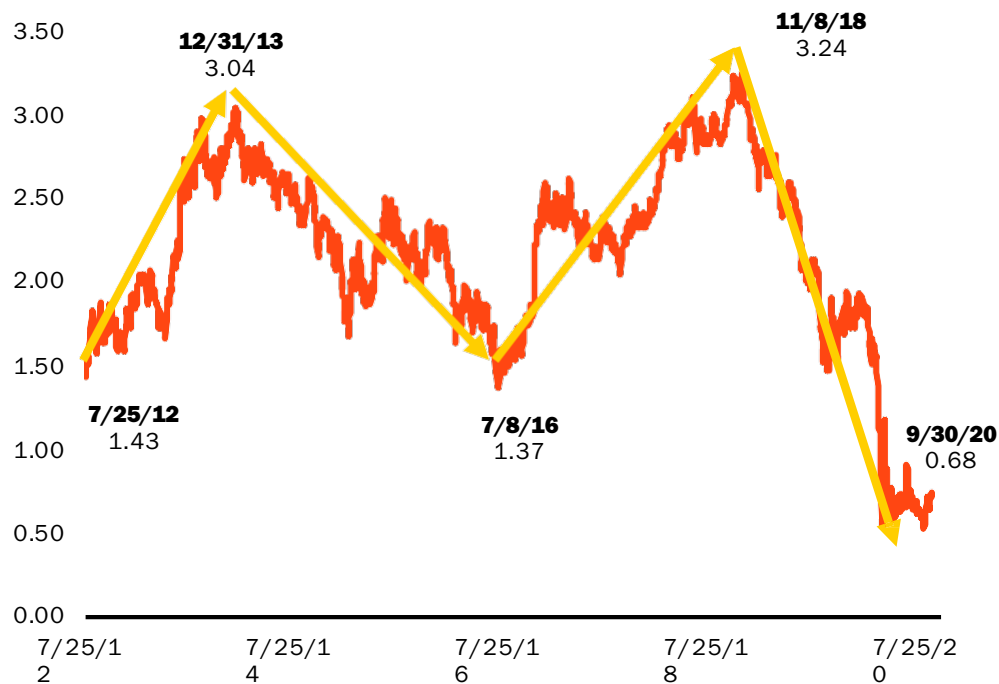


**BOND PERFORMANCE AND RISING INTEREST RATES**

# Bond fund flexibility when interest rates rise

## Interest rate cycles

10 year U.S. Treasury Bond Yield



## Bond categories

Total returns based on rising or falling interest rates

|                          | Core bond index | Intermediate core bond | Intermediate core-plus bond |
|--------------------------|-----------------|------------------------|-----------------------------|
| Rising interest rates    |                 |                        |                             |
| 2012-07-26 to 2013-12-31 | -1.2            | 0.3                    | 0.9                         |
| 2016-07-09 to 2018-11-08 | -1.1            | -0.4                   | 0.0                         |
| Falling interest rates   |                 |                        |                             |
| 2018-11-09 to 2020-09-30 | 9.7             | 8.9                    | 8.8                         |
| 2014-01-01 to 2016-07-08 | 5.0             | 4.2                    | 4.3                         |
| Entire period            |                 |                        |                             |
| 2012-07-26 to 2020-09-30 | 3.2             | 3.2                    | 3.5                         |

Source: Morningstar, St. Louis Federal Reserve as of 9/30/20. Core bond index represented by the Bbg Barc US Agg Bond TR Index. Intermediate core bonds represented by the Morningstar US Intermediate Core Bond category. Intermediate core-plus bonds represented by the Morningstar US Intermediate Core-Plus Bond Category. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Student of the Market: October 2020

| Returns as of 9/30/2020             | Total Ret 1 Year | Total Ret 5 Years | Total Ret 10 Years |
|-------------------------------------|------------------|-------------------|--------------------|
| S&P 500 TR USD                      | 15.15            | 14.15             | 13.74              |
| BBgBarc US AggBond TR USD           | 6.98             | 4.18              | 3.64               |
| Fama-French Large Growth TR USD     | 13.52            | 13.28             | 16.98              |
| Fama-French Large Value TR USD      | -3.72            | 7.30              | 17.08              |
| IASBBI US IT Govt TR USD            | 7.94             | 3.84              | 2.95               |
| IASBBI US Large Stock TR USD Ext    | 15.15            | 14.15             | 13.74              |
| Russell 1000 Growth TR USD          | 37.53            | 20.10             | 17.25              |
| Russell 1000 Value TR USD           | -5.03            | 7.66              | 9.95               |
| US Fund Intermediate Core Bond      | 6.66             | 3.94              | 3.49               |
| US Fund Intermediate Core-Plus Bond | 6.37             | 4.32              | 3.97               |
| US BLS CPI All Urban NSA 1982-1984  | 1.31             | 1.75              | 1.76               |
| USTREAS T-Bill Auction Ave 1 Mon    | 0.74             | 1.09              | 0.57               |

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown.

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